

**REPORT OF THE AUDIT OF THE
FORMER ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 25, 2009 Through April 15, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER ADAIR COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
April 25, 2009 Through April 15, 2010**

The Auditor of Public Accounts has completed the audit of the former Sheriff's Settlement - 2009 Taxes for the former Adair County Sheriff for the period April 25, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$4,832,797 for the districts for 2009 taxes, retaining commissions of \$198,746 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$4,630,145 to the districts for 2009 taxes. Taxes of \$56 are due to the districts from the former Sheriff and a refund of \$1 is due to the former Sheriff from the existing Sheriff.

Report Comment:

- 2009-01 The former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

Deposits:

The former Sheriff's deposits as of December 7, 2009 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$149,955

The former Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
FORMER SHERIFF'S SETTLEMENT - 2009 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	9
COMMENT AND RECOMMENDATION	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ann Melton, Adair County Judge/Executive
Honorable Ralph Curry, Former Adair County Sheriff
Honorable Harrison Moss, Adair County Sheriff
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the former Adair County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010. This tax settlement is the responsibility of the former Adair County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for former Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff's office prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Adair County Sheriff's taxes charged, credited, and paid for the period April 25, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 4, 2011 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Ann Melton, Adair County Judge/Executive
Honorable , Former County Sheriff
Honorable Harrison Moss, Adair County Sheriff
Members of the Adair County Fiscal Court

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- 2009-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

February 4, 2011

ADAIR COUNTY
RALPH CURRY, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period April 25, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 532,466	\$ 765,737	\$ 2,074,083	\$ 618,675
Tangible Personal Property	60,261	70,431	154,044	130,809
Fire Protection	2,202			
Increases Through Exonerations	282	902	779	135
Franchise Taxes	78,681	97,487	229,663	
Additional Billings	94	135	365	142
Oil and Gas Property Taxes	26,802	38,545	104,401	31,142
Limestone, Sand and Mineral Reserves	547	786	2,130	635
Bank Franchises	68,852			
Penalties	5,459	7,787	20,976	6,455
Adjusted to Sheriff's Receipt	(15)	38	7	4
Gross Chargeable to Sheriff	<u>775,631</u>	<u>981,848</u>	<u>2,586,448</u>	<u>787,997</u>
<u>Credits</u>				
Exonerations	3,744	5,335	14,352	4,348
Discounts	10,516	12,772	33,652	10,992
Delinquents:				
Real Estate	10,243	14,689	39,787	11,868
Tangible Personal Property	688	804	1,760	363
Delinquent Oil	16,153	23,230	62,921	18,769
Franchise Taxes	453	530	1,158	
Total Credits	<u>41,797</u>	<u>57,360</u>	<u>153,630</u>	<u>46,340</u>
Taxes Collected	733,834	924,488	2,432,818	741,657
Less: Commissions *	<u>31,188</u>	<u>38,725</u>	<u>97,313</u>	<u>31,520</u>
Taxes Due	702,646	885,763	2,335,505	710,137
Penalty				1
Taxes Paid	702,066	885,015	2,333,612	709,452
Refunds (Current and Prior Year)	<u>560</u>	<u>713</u>	<u>1,894</u>	<u>685</u>
Due Districts or Refund Due Sheriff as of Completion of Audit	<u>\$ 20</u>	<u>\$ 35</u>	<u>\$ (1)</u>	<u>\$ 1</u>

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY
RALPH CURRY, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period April 25, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 2,173,850

4% on \$ 2,658,947

** Special Taxing Districts:

Library District	\$	8
------------------	----	---

Health District		9
-----------------	--	---

Soil District		18
		<hr/>

Due Districts	\$	<u>35</u>
---------------	----	-----------

ADAIR COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The former Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the former Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Adair County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ADAIR COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 15, 2010
 (Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 7, 2009, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the former Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$149,955

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2009 through April 15, 2010.

B. Oil, Limestone, Sand and Gravel Property Tax

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 04, 2009 through April 15, 2010.

Note 4. Interest Income

The Adair County former Sheriff earned \$6,045 as interest income on 2009 taxes. The former Sheriff distributed to the school district as required by statute, and the remainder was used to operate the former Sheriff's office. As of February 4, 2011, the school owed \$46 in interest to the former Sheriff and the former Sheriff owed \$87 in interest to the fee account.

Note 5. Former Sheriff's 10% Add-On Fee

The Adair County former Sheriff collected \$35,028 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the former Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive
Honorable Ralph Curry, Former Adair County Sheriff
Honorable Harrison Moss, Adair County Sheriff
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Adair County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010, and have issued our report thereon dated February 4, 2011. The former Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Adair County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2009-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the former Adair County Sheriff's Settlement - 2009 Taxes for the period April 25, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, others within the entity and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

February 4, 2011

COMMENT AND RECOMMENDATION

ADAIR COUNTY
RALPH CURRY, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period April 25, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

A lack of adequate segregation of duties existed over all accounting functions. During our review of internal controls, we noted the former Sheriff's bookkeeper collected receipts, prepared deposits, reconciled the monthly reports, remitted payments, and reconciled the monthly bank statements.

Adequate segregation of duties would prevent the same person from having a significant role in the process, recording and reporting of receipts and expenditures. When a limited budget placed restrictions on the number of employees the former Sheriff could hire, strong compensating controls should have been in place to offset the lack of segregation of duties.

Lack of oversight could have resulted in errors, misappropriation of assets, fraud and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could have occurred but gone undetected.

The current design in the internal control structure did not reduce the level of risk that errors, misappropriation of assets, fraud and inaccurate financial reporting may have occurred and not been detected within a timely period by employees in the normal course of performing their assigned duties.

The former Sheriff should have strengthened internal controls by either segregating the duties or by implementing and documenting compensating controls.

Former Sheriff's Response: No Response.

